

VZCZCXR07359
PP RUEHCN RUEHGH RUEHVC
DE RUEHB^J #2517 1070128
ZNR UUUUU ZZH
P 170128Z APR 07
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC PRIORITY 6913
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEAEPA/HQ EPA WASHDC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS BEIJING 002517

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E.O. 12958: N/A
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SUBJECT: STAFFDEL MIXTER'S VISIT TO INNER MONGOLIAN COAL LIQUEFACTION PLANT AND TIBETAN MONASTERY

¶1. (SBU) Officials of China's Shenhua Company told Staffdel Mixter that their factory for direct coal liquefaction could begin producing diesel fuel from coal with minimal environmental impact by the end of this year. During an April 6 tour of Shenhua's eighty percent-complete facility in Erdos, Inner Mongolia, project manager Peng Xiaochuan told the Staffdel that Shenhua's process, which was tested successfully in 2006, will produce a product that is 10 percent LPG, 25 percent naptha and 71 percent diesel fuel (although the fuel may require further refining before it can be used in vehicles). Including the coal needed to run the factory, the process requires three tons of coal for every one ton of product produced, Peng said.

¶2. (SBU) Press reports about Shenhua's especially clean direct liquefaction process attracted the Staffdel to want to tour the factory, according to delegation head Cobb Mixter. Shenhua's Peng confirmed that the main emission from its process is carbon dioxide, which the company hopes to store in many of its nearby coal mines which are no longer in production. The U.S. Department of Energy is helping Shenhua study the process of carbon sequestration, Peng noted.

¶3. (SBU) In a separate meeting on April 9 in Beijing, BP-China Vice President Gary Dirks expressed skepticism that Shenhua's direct coal liquefaction process can work. Dirks claimed the project faces technical problems and said cost overruns have nearly tripled the intended investment in the project facilities. Shenhua's Peng noted that heavy investment from the company was required, but felt that the process would be profitable so long as the price of oil remained above USD38 per barrel.

Largest Tibetan Temple in Inner Mongolia

¶4. (SBU) A two-hour drive outside of Baotou, Inner Mongolia, the Staffdel on April 7 visited the Wudangzhao Temple, the largest Tibetan Buddhist Temple outside of traditional Tibet and the third-largest Tibetan Buddhist Temple in the world. Monks told the Staffdel that the 250-year old temple now has fewer than 70 monks in residence, including a living Buddha who is a teenager. Staffdel members observed and spoke with a number of teenage monks at the temple. Large portraits of the Dalai Lama were on display, along with a single small portrait of the Chinese-nominated Panchen Lama, which was pushed off to the

side of an altar in the Temple's main hall.

¶15. (U) This message is SENSITIVE BUT UNCLASSIFIED and should not be distributed outside the USG or posted on the Internet. The Staffdel did not have the opportunity to clear this message.

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